NOTES

WASHINGTON NOTES

THE "MONEY TRUST" RECOMMENDATIONS

The final outcome of the "Money Trust" investigation conducted under the auspices of the House of Representatives Banking and Currency Committee, aided by Samuel Untermyer, of New York, was reached on March 1, when a report was filed with the House of Representatives (report of the committee appointed pursuant to House resolutions 429 and 504 to investigate the concentration of control of money and credit). At so late a stage in the short session of Congress it was of course impossible to take any action whatever with respect to the initiation of measures in either house, even if there had been a disposition to do so. It was evident, however, that the methods by which the investigation had been carried on had been distasteful to a very large portion of the membership of both houses of Congress, and this fact would in any case have tended to prevent the taking of action. This investigation has, however, had an effect in calling attention to the conditions of banking and those under which trading in stocks is carried on. It is probable that in future legislation on banking there will be traces of the work done by this committee, especially since some of its recommendations are distinctly in line with suggestions often made in the past by disinterested and competent authorities.

Without going in detail into the suggestions made by the "Money Trust" committee, a brief summary of the chief suggestions is worthy of permanent record. In respect to clearing-house practices the chief suggestions made are as follows:

A. *Incorporation and regulation.*—Clearing-house associations of which national banks are members should be required to become bodies corporate of the states in which they are respectively located, and every solvent and properly managed bank or trust company should have the right, enforceable at law, to become and remain a member.

B. *Admission of all banks.*—The exclusion of sound and well-managed banks simply because they are small in size should be prohibited; but it should be permissible to require every applicant for admission to have a capital not less than the minimum capital required of national banks in the same locality.

C. *Examination of members.*—Regular periodical examinations of members by a committee of the association should be prohibited, and instead all such examinations should be conducted by public authorities.

D. *Issuance of clearing-house certificates.*—Such associations should be prohibited from issuing certificates on the security of their members' assets, except for circulation among members to pay balances at the clearing-house, and in that case only on condition that both the issuance and retirement of such certificates shall be under governmental control.

E. *Regulation of rates for collecting out-of-town checks.*—The practice now so general among such associations of compelling members, under pain of expulsion, to charge prescribed rates for collecting out-of-town checks should be prohibited.

F. *Regulation of rates of discount and of interest on deposits, etc.*—Such associations should be further prohibited from prescribing rates of interest or discount, rates of interest allowed on deposits, rates of exchange, or any other regulation not appropriate to its function of instrumentality for the collection of checks by banks of the same community one from another.

The suggestions regarding concentration of money and credit are in part as follows:

A. *Consolidations of banks.*—Two or more banks should not be permitted to consolidate unless such consolidation shall have been approved by the Comptroller of the Currency as in the public interest. He should have plenary power to forbid it where it threatens to result in undue concentration of control.

B. *Interlocking bank directorates.*—No person should be permitted to be a director in more than one national bank serving the same community or locality, nor should any person who is a director of any state bank or trust company, or is a partner or associate of any private banker or banking firm, be eligible as a director of any national bank serving the same community or locality, except that a director in a national bank may have one partner who is a director in a trust company.

C. *Interlocking stockholdings among banks.*—No part of the stock of any national bank should be permitted to be owned or held directly or indirectly by any other bank or by any trust company or holding company; and no national bank should be permitted to own or hold any part of the stock of any other bank or trust company.

D. *Voting trusts in banks.*—The transfer of any part of the stock of national banks to trustees solely or primarily in order that they may vote the same at annual elections and other stockholders' meetings—"voting trusts," as they are generally known—should be expressly prohibited.

E. *Cumulative voting.*—Minority representation in the directorates of national banks should be secured by adopting the system of cumulative voting, i.e., by providing that at elections for directors each stockholder shall have as many votes as are equal to the number of his shares, multiplied by the number of directors to be elected, which votes may be cast solidly for one director or distributed among several, as the shareholder shall see fit. And no national bank should be permitted to purchase the obligations or lend upon the obliga-

tions or shares of any corporation whose directors are not chosen at elections conducted under the cumulative system of voting.

F. *Security-holding companies as adjuncts to banks.*—The stockholders of a national bank should be expressly prohibited from becoming associated as stockholders in any other corporation under agreements or arrangements assuring that the stock of such other corporation shall always be owned by the same persons or substantially the same persons who own the stock of the bank or that the managements shall be substantially the same.

G. *Fiscal agency agreements.*—Interstate corporations should not be permitted to enter into any agreements or other arrangements constituting any bank, banker, or trust company their sole fiscal agent to dispose of their security issues.

H. *Private bankers as depositaries.*—Interstate corporations should not be permitted to deposit their funds with unsupervised, unregulated, private bankers who do not disclose their resources or liabilities, who keep no reserve, and are free to invest their depositors' money as they see fit.

I. *Banks not to engage in underwritings.*—National banks should be prohibited from directly or indirectly engaging in any promotion, guaranty, or underwriting, involving the purchase, sale, public offering, or issue, or other disposition of the securities of any corporation.

J. *Investments of banks in bonds.*—National banks should be expressly authorized to invest 25 per cent of their capital and surplus in the obligations of states, cities, counties, or other municipal subdivisions and in mortgage bonds of corporations on which interest has been regularly paid for five years or in case of new issues when the earnings of the corporation within the period were sufficient to have paid such interest.

K. *Reform of railroad reorganization.*—The method of reorganizing insolvent railroads should be reformed by adopting in substance the system provided by the companies' act of Great Britain, whereby, briefly stated, the plan and procedure on reorganization are placed under the direction and control of the courts, the receiver is elected by the votes of those interested in the property, no sale is involved, a single shareholder can defeat an unjust plan.

L. *Railroad reorganizations under supervision of Interstate Commerce Commission.*—The Interstate Commerce Commission should be empowered, subject to review by the courts, to supervise and review plans for the reorganization of interstate railroads and the issue of securities thereunder.

Other suggestions of a less important character are also made but need not be reviewed here. Many of them are familiar; others are grotesque or impossible. The recommendations as regards the regulation of the New York Stock Exchange are not enumerated at all, as they are of less general interest, while the actual task of carrying out this regulation has been taken over by the New York legislature, and is now in process.

A DEPARTMENT OF LABOR

Action demanded by labor leaders for a long time past has at length been taken by Congress in enacting a measure signed by the President on March 4, 1913 (Public Act 426, 62d Congress, 3d session), providing for the creation of a department of labor. The act itself is not of special or unusual interest, inasmuch as it merely transfers to the new department certain bureaus heretofore controlled by the Department of Commerce and Labor and changes the name of the latter department to that of Department of Commerce. The bureaus thus transferred are the Immigration Service, the Bureau of Immigration and Naturalization, the Division of Information, the Division of Naturalization, the Bureau of Labor, the Children's Bureau, and the Commissioner of Labor. A few minor changes in organization are made but the bill itself will require considerable supplementary legislation in order to perfect it.

Section 8 of the bill provides:

That the Secretary of Labor shall have power to act as mediator and to appoint commissioners of conciliation in labor disputes whenever in his judgment the interests of industrial peace may require it to be done; and all duties performed and all power and authority now possessed or exercised by the head of any executive department in and over any bureau, office, officer, board, branch, or division of the public service by this act transferred to the Department of Labor, or any business arising therefrom or pertaining thereto, or in relation to the duties performed by any authority conferred by law upon such bureau, officer, office, board, branch, or division of the public service, whether of an appellate or revisory character or otherwise, shall hereafter be vested in and exercised by the head of the said Department of Labor.

VALUATION OF RAILROADS

What is probably one of the most far-reaching enactments with respect to railroad control that have been adopted in the last four years is found in the measure approved by President Taft on March 1, calling for a physical valuation of the railway property of the United States (Public Act 400, 62d Congress, 2d session). This act provides that the Commission shall undertake the work under the following conditions:

First. In such investigation said commission shall ascertain and report in detail as to each piece of property owned or used by said common carrier for its purposes as a common carrier, the original cost to date, the cost of reproduction new, the cost of reproduction less depreciation, and an analysis of the methods by which these several costs are obtained, and the reason for their differences, if any. The commission shall in like manner ascertain and report separately other values, and elements of value, if any, of the property of such

common carrier, and an analysis of the methods of valuation employed, and of the reasons for any differences between any such value, and each of the foregoing cost values.

Second. Such investigation and report shall state in detail and separately from improvements the original cost of all lands, rights of way, and terminals owned or used for the purposes of a common carrier, and ascertained as of the time of dedication to public use, and the present value of the same, and separately the original and present cost of condemnation and damages or of purchase in excess of such original cost or present value.

Third. Such investigation and report shall show separately the property held for purposes other than those of a common carrier, and the original cost and present value of the same, together with an analysis of the methods of valuation employed.

Fourth. In ascertaining the original cost to date of the property of such common carrier the commission, in addition to such other elements as it may deem necessary, shall investigate and report upon the history and organization of the present and of any previous corporation operating such property; upon any increases or decreases of stocks, bonds, or other securities, in any reorganization; upon moneys received by any such corporation by reason of any issues of stock, financial arrangements under which such issues were made and the expense thereof; and upon the net and gross earnings of such corporations; and shall also ascertain and report in such detail as may be determined by the commission upon the expenditure of all moneys and the purposes for which the same were expended.

It is believed that the cost of carrying out this immense undertaking will run toward $10,000,000 and may extend over several years' time. An important phase of the theory upon which this investigation has been authorized relates to its bearing on railroad rates. A number of progressives in Congress have strongly entertained the view that the actual value of railroad property was a necessary prerequisite piece of information to the fixing of rates for transportation. This, as is well known to all students of railroad rate-making, is an unfounded and even ridiculous assumption. Whatever the value of the investigation may be, it will not be that of furnishing a basis for the establishment of railroad rates. The inquiry may furnish some interesting and hitherto unavailable data concerning the actual physical condition of the carriers.

MR. TAFT'S BUDGET MESSAGE

President Taft, in his long-delayed message on a budget system, finally sent to Congress on February 26, gave the results of the plans which he has had under preparation for a long time past, and which he

has persevered in making despite the opposition of Congress. The budget message now laid before Congress is likely to furnish the beginning of a renewed agitation on this subject, for it contains a convenient summary of much matter that has been under discussion for a good while past, and thereby makes the argument for reform more effective. The message undertakes to show how existing estimates might have been reclassified and rearranged so as to indicate the real position of the government in a much more accurate form. It also deals with questions that are not purely technical by submitting recommendations for the introduction of economy into the public service through the elimination of sinecures. In this connection also much attention is given to the fact already often commented upon—that the present distribution of government salaries is unfair, inasmuch as it gives to many persons in the lower grade of clerks unduly high salaries, while it withholds the necessary salaries from men in the higher grades, thereby lessening the incentives to efficiency and rendering it probable that many, after making a small measure of advancement, will cease their efforts to secure higher places. President Taft goes much beyond the scope of a mere budget system, however, since he undertakes to outline some constructive recommendations with reference to internal improvements, while he calls for the proper financing of the public debt, including the retirement of the greenbacks, and makes many other suggestions of a far-reaching and inclusive type. Among these one of the most interesting (although one of those most clearly outside the province of the executive), is the suggestion that a budget committee be created in the House to take over the functions of appropriating money now exercised by some thirteen different committees. In conjunction with this is also suggested the creation of a central administrative bureau to oversee the general management of the budgetary system. The President says:

First in the list of proposed changes in law setting forth what legislation should be enacted in order to enable the administration to transact the public business with greater economy and efficiency is a recommendation for the establishment of a bureau of central administrative control, with a controller at the head who would be responsible to the President and to Congress. Concretely the proposal is to consolidate the six auditors' offices as well as the office of the Comptroller of the Treasury and the other central accounting offices of the government in one executive bureau and thereby without increasing cost to provide for a central accounting, auditing, and reporting organization which would include among its activities the preparation of a budget supported by a book of estimates and a consolidated financial report for the government. This agency would also serve in the capacity of an independent

agency for the preparation of special reports when requested either by the Congress or by the President.

There is much in this budget message to commend, although most persons will hardly agree with the detail of the tentative scheme for reform submitted by the President, and will regret that the progress of the undertaking should be retarded by the fact that it has been prepared in a way and under conditions that seem to be unmistakably illegal. Like much of the work that has been done by the Efficiency and Economy Commission, so called, at the instance of President Taft, or by way of suggestion to him, this budget plan goes much too far and attempts the impossible, by seeking to draw into its scope many problems and conditions that are only remotely connected with it. What will be the future of the undertaking must depend largely upon the extent to which the subject commends itself to the appropriations leaders in the House. They have had it upon their minds for at least two or three years past, and it is unfortunate that they could not have been associated with this effort to secure a rearrangement of present methods. Had their sympathetic co-operation been obtained, results would have been very much more likely than they now are.

ENACTMENT OF THE NORRIS BILL

The final passage by Congress of the so-called Norris bill for the amendment of existing anti-trust laws has been given effect by President Taft, who signed the measure shortly before leaving office. The bill is interesting in itself, but it is also remarkable as constituting the first amendment of the statutes regulating industrial monopolies which has been passed for many years. As adopted (Public Act 370, 62d Congress, 3d session), the measure is as follows:

That section seventy-three and section seventy-six of the act of August twenty-seventh, eighteen hundred and ninety-four, entitled "An act to reduce taxation, to provide revenue for the government, and for other purposes," be, and the same are hereby, amended to read as follows:

SEC. 73. That every combination, conspiracy, trust, agreement, or contract is hereby declared to be contrary to public policy, illegal, and void when the same is made by or between two or more persons or corporations either of whom, as agent or principal, is engaged in importing any article from any foreign country into the United States, and when such combination, conspiracy, trust, agreement, or contract is intended to operate in restraint of lawful trade, or free competition in lawful trade or commerce, or to increase the market price in any part of the United States of any article or articles imported or intended to be imported into the United States, or of any manufacture into which such

imported article enters or is intended to enter. Every person who is or shall hereafter be engaged in the importation of goods or any commodity from any foreign country in violation of this section of this act, or who shall combine or conspire with another to violate the same, is guilty of a misdemeanor, and on conviction thereof in any court of the United States such person shall be fined in a sum not less than one hundred dollars and not exceeding five thousand dollars, and shall be further punished by imprisonment, in the discretion of the court, for a term not less than three months nor exceeding twelve months.

SEC. 76. That any property owned under any contract or by any combination, or pursuant to any conspiracy, and being the subject thereof, mentioned in section seventy-three of this act, imported into and being within the United States or being in the course of transportation from one State to another, or to or from a territory or the District of Columbia, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law.